Economics Department

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24th ANNUAL McGRAW-HILL SURVEY OF OVERSEAS OPERATIONS OF U.S. INDUSTRIAL COMPANIES, 1982-84

It looks like the U.S. will not be the only economy to suffer a lack of American companies' capital expenditures this year, and possibly next.

According to McGraw-Hill's "24th Annual Survey of Overseas Operations of U.S. Industrial Companies," American manufacturing and petroleum firms plan to raise foreign capital expenditures by just 4% this year to $38.4 billion (Table I). The increase for next year is put at 10%. This year's 4% increase surely represents a decline after inflation is taken into account; and a 10% rise next year would translate into little if any inflation-adjusted gain.

If these plans are realized, it would represent a continuation of weak foreign spending by U.S. companies that began in 1981 when spending rose 8%. By contrast, purchases of property, plant, and equipment abroad zoomed 23% in 1979 and 30% in 1980.

These projections of soft foreign capital spending this year and next parallel U.S. firms' domestic expenditure plans: In 1982, companies responding to a McGraw-Hill survey conducted last spring said they would raise capital outlays by just 4%; they put next year's advance at 7%.

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The foreign spending projections are based on a survey conducted in July and August, and cover planned expenditures by U.S. companies' majority-owned foreign affiliates. Companies responding to the survey accounted for 28% of U.S. foreign spending in 1981. Dollar figures reported in this report, however, represent spending by all U.S. firms.

Manufacturing is Mired in Recession

While total industry foreign capital spending projections are weak, U.S. oil companies project a fairly healthy 16% increase in 1982 to $20.2 billion. The firms then foresee a sharp 23% hike in 1983. Manufacturing companies, meanwhile, are looking in the opposite direction--they plan to reduce spending both this year and next. If all plans materialize, petroleum companies would do more than half of U.S. industry's foreign capital spending this year, and would account for 60% of the total in 1983.

It's not hard to see why U.S. manufacturers are adopting a cautious view of foreign capital budgets this year and next. Manufacturers' majority-owned foreign affiliates are based primarily in Europe, and European economies have been stagnating for the past couple of years. In fact, industrial production in Europe has dipped by 3% since early 1980.

Another important foreign market for U.S. manufacturers is Canada, which has been stuck in recession too. Canada's industrial production has plummeted 8% in two years.

These figures point to weak demand for U.S. manufacturers' products in key markets, and thus suggest why firms are cutting back on purchases of property, plant and equipment. Another reflection of weak

demand is the low level of plant operation abroad (Table V). At the end of last year U.S. foreign affiliates were running their plants at 74% of capacity; by the end of this year they project an operating rate of 73%. In order for capital spending to pick up, capacity utilization would probably have to jump by at least ten percentage points--which is not likely to happen in a hurry given the frail state of the world economy at present.

As evidence of that frailty, U.S. manufacturers think that sales of their majority-owned foreign affiliates will rise a mere 1% this year (Table IX), a drop in inflation-adjusted terms. And half of the manufacturers responding to the survey said that foreign profit margins this year will likely be lower than last year (Table VIII). Fewer than a third thought margins would be higher, while a fifth thought they would be the same.

The good news is that manufacturing firms expect foreign sales to jump 14% next year; and two-thirds of the companies think profit margins will improve. Yet given the substantial amount of spare manufacturing capacity abroad, it is evident that business in 1983 will not pick up fast enough to fuel any increase in capital spending.

By 1984, however, when foreign sales are expected to rise another 16%, U.S. manufacturers expect economic conditions to be strong enough to warrant a resumption of capital spending increases. In 1984, U.S. manufacturers say their foreign affiliates should boost purchases of property, plant, and equipment by 12%. If current projections for 1982, 1983, and 1984 are realized, it would bring 1984 outlays back to the level of 1981.

Among industries within manufacturing, the only one planning much in the way of capital spending this year and next is electrical machinery--an 11% rise this year followed by 13% in 1983 and 21% in 1984. This industry includes electronics and data communications firms, and thus may indicate that U.S. companies see high technology as the only promising sector of foreign economies in the near term.

Petroleum Provides the Power

In contrast to manufacturers, U.S. petroleum companies foresee substantial gains in foreign capital expenditures--up 16% and 23% in 1982 and 1983, respectively. And that's despite expectations that foreign affiliate sales will plunge 21% this year and will advance only 2% next year. World oil prices are apparently projected to remain soft in 1983.

Meanwhile, the operating rate of U.S. oil companies' refineries abroad is expected to drop to 69% by year-end 1982, versus 72% at the end of 1981. At those low rates there's not much incentive to expand capacity. And, in fact, the oil companies plan to cut capacity 2% this year and add no capacity next year (Table IV).

Why, then, the spurt in petroleum capital spending abroad?

The answer can probably be discovered in the exploration side of the oil industry's capital expenditures. With the Middle East showing no signs of becoming more stable, and with production of oil in the North Sea difficult and expensive, U.S. oil companies are looking for new reserves. According to the survey, the companies are betting their dollars that those reserves will be found in Asia: Such a huge burst of petroleum capital expenditures are projected for Asia (Table II)

that by 1984 half of all oil companies' foreign capital spending will be targeted on that continent.

These plans, if realized, would hike petroleum's Asian expenditures from $5 billion this year to more than $10 billion next year to more than $13 billion in 1984. Some of that spending would presumably go to continued development of operations in Indonesia and Malaysia as well as in other Southeast Asian countries. Such massive spending increases, however, suggest heavy investment in new territory--namely, the People's Republic of China.

Outside of Asia, no other area of the world is expected to see much if any increase in petroleum capital spending in the near term. The major exception is Africa, where U.S. oil companies' capital expenditures are projected to more than double this year, jumping to $3.4 billion. Spending thereafter, though, is expected to flatten out at about $3 billion per year.

Petroleum spending in Latin America is expected to rise this year, but it is then projected to tail off sharply in 1983 and 1984.

The only areas of the world slated to receive much of a capital injection from U.S. manufacturing affiliates between now and 1984 are the European Economic Community (EEC) and Latin America. After U.S. capital investment in the EEC dips this year and next, it is projected to roar back in 1984 to $10.3 billion. That would put the level 17% higher than it was in 1981. Most of the gain would be due to advances in spending by producers of electrical machinery.

In Latin America, U.S. manufacturers' foreign affiliates are expected to invest $3.9 billion in 1984, up 16% from the near $3.4 billion spent in 1981. That increase would stem solely from major

increases in investment planned by (nonelectrical) machinery producers. All other manufacturing industries are planning to reduce their capital expenditures in Latin America in the next few years, with the exception of food which projects a slight increase.

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TABLE I

OVERSEAS CAPITAL EXPENDITURES BY AMERICAN COMPANIES
(Millions of Dollars)

INDUSTRY	Actual* 1981	Planned 1982	% Change 1981-82	Planned 1983	% Change 1982-83	Planned 1984	% Change 1983-84
Primary & Fabricated Metals	$ 996	$ 601	-40%	$ 560	-7%	$ 611	9%
Machinery	4,754	4,843	2	5,738	18	6,221	8
Electrical Machinery	1,283	1,418	11	1,608	13	1,952	21
Transportation Equipment	4,894	3,942	-19	2,021	-49	2,140	6
Chemicals	3,128	3,191	2	2,956	-7	3,234	9
Food & Beverages	1,487	917	-38	1,070	17	1,055	-1
Other Manufacturing**	2,952	3,277	11	3,312	1	4,099	24
ALL MANUFACTURING	19,494	18,189	-7	17,265	-5	19,312	12
Petroleum	17,461	20,229	16	24,969	23	25,661	3
ALL INDUSTRY	36,955	38,418	4	42,234	10	44,973	6

NOTE: Figures refer to foreign affiliates of U.S. companies in which a majority share is owned by U.S. companies. Data for 1982, 1983, 1984 are based on a sample, but represent spending by all U.S. majority-owned foreign affiliates.

* SOURCE: U.S. Dept. of Commerce

** Includes paper, textiles, instruments, rubber, and stone, clay, glass.

TABLE II

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(Millions of Dollars)

	CANADA				LATIN AMERICA			
	Estimated	--------Planned-------			Estimated	--------Planned-------		
INDUSTRY	1981	1982	1983	1984	1981	1982	1983	1984
Primary & Fabricated Metals	$ 210	$ 116	$ 86	$ 68	$ 373	$ 90	$ 69	$ 36
Machinery	590	571	778	435	376	1,286	1,944	2,251
Electrical Machinery	185	109	129	150	213	44	51	54
Transportation Equipment	977	628	323	342	906	624	348	447
Chemicals	650	425	572	662	592	539	402	446
Food & Beverages	210	162	251	180	415	305	356	418
Other Manufacturing	1,050	300	297	383	491	197	229	263
ALL MANUFACTURING	3,872	2,311	2,436	2,220	3,366	3,085	3,399	3,915
Petroleum	2,973	2,679	4,101	2,080	1,283	1,415	662	247
ALL INDUSTRY	6,845	4,990	6,537	4,300	4,649	4,500	4,061	4,162

TABLE II (Cont'd)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(Millions of Dollars)

	EEC*				EUROPE OTHER THAN EEC			
	Estimated	Planned			Estimated	Planned		
INDUSTRY	1981	1982	1983	1984	1981	1982	1983	1984
Primary & Fabricated Metals	$ 331	$ 231	$ 220	$ 166	$ 22	$ 5	$ 4	$ 0
Machinery	3,109	1,897	1,914	2,806	102	123	173	299
Electrical Machinery	471	987	1,107	1,445	74	149	179	161
Transportation Equipment	NA	929	761	994	NA	1,486	410	203
Chemicals	1,398	1,057	1,260	1,423	161	565	176	135
Food & Beverages	600	450	463	457	54	0	0	0
Other Manufacturing	NA	2,379	2,411	3,007	NA	164	169	187
ALL MANUFACTURING	8,788	7,930	8,136	10,298	1,390	2,492	1,111	985
Petroleum	5,904	4,372	3,295	3,108	1,497	1,060	1,222	1,691
ALL INDUSTRY	14,692	12,302	11,431	13,406	2,887	3,552	2,333	2,676

* Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, Netherlands, United Kingdom

TABLE II (Cont'd)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(Millions of Dollars)

INDUSTRY	MIDDLE EAST*				AUSTRALIA, NEW ZEALAND, SOUTH AFRICA			
	Estimated 1981	Planned 1982	Planned 1983	Planned 1984	Estimated 1981	Planned 1982	Planned 1983	Planned 1984
Primary & Fabricated Metals	$ 0	$ 0	$ 0	$ 0	$ NA	$ 160	$ 181	$ 341
Machinery	6	292	313	12	NA	152	131	210
Electrical Machinery	17	14	29	23	27	66	54	52
Transportation Equipment	0	0	0	0	NA	206	113	126
Chemicals	7	0	0	0	121	234	208	164
Food & Beverages	6	0	0	0	NA	0	0	0
Other Manufacturing	0	12	9	10	NA	63	76	97
ALL MANUFACTURING	36	318	351	45	759	881	792	990
Petroleum	270	153	235	177	NA	2,148	2,025	2,082
ALL INDUSTRY	306	471	586	222	NA	3,029	2,817	3,072

* Aden, Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen

TABLE II (Cont'd)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(Millions of Dollars)

INDUSTRY	JAPAN-ASIA (OTHER THAN MIDDLE EAST)				AFRICA (OTHER THAN MIDDLE EAST AND SOUTH AFRICA)			
	Estimated 1981	Planned 1982	Planned 1983	Planned 1984	Estimated 1981	Planned 1982	Planned 1983	Planned 1984
Primary & Fabricated Metals	$ NA	$ 0	$ 0	$ 0	$ 13	$ 0	$ 0	$ 0
Machinery	NA	394	257	205	0	127	227	2
Electrical Machinery	293	29	25	29	2	21	34	38
Transportation Equipment	NA	38	20	27	0	31	16	0
Chemicals	192	357	327	353	8	14	11	12
Food & Beverages	NA	0	0	0	20	0	0	0
Other Manufacturing	NA	131	81	91	11	31	40	61
ALL MANUFACTURING	1,230	949	710	705	54	224	328	113
Petroleum	NA	4,991	10,461	13,227	1,602	3,410	2,967	3,049
ALL INDUSTRY	NA	5,940	11,171	13,932	1,656	3,634	3,295	3,162

TABLE III

OVERSEAS CAPITAL EXPENDITURES FOR PROPERTY, BUILDINGS, AND MACHINERY & EQUIPMENT

	Estimated 1981			Planned 1982		
INDUSTRY	Property	Buildings	Machinery & Equipment	Property	Buildings	Machinery & Equipment
Primary & Fabricated Metals	8%	26%	66%	21%	28%	52%
Machinery	4	29	67	3	17	81
Electrical Machinery	2	9	89	1	8	90
Transportation Equipment	0	31	69	3	40	56
Chemicals	2	27	72	0	34	66
Food & Beverages	5	19	76	0	22	78
Other Manufacturing	1	6	93	1	5	94
ALL MANUFACTURING	2	27	70	3	24	73
Petroleum	7	2	91	0	4	96
ALL INDUSTRY	5	15	80	2	15	84

TABLE III (Cont'd)

OVERSEAS CAPITAL EXPENDITURES FOR PROPERTY, BUILDINGS, AND MACHINERY & EQUIPMENT

	Planned 1983			Planned 1984		
INDUSTRY	Property	Buildings	Machinery & Equipment	Property	Buildings	Machinery & Equipment
Primary & Fabricated Metals	30%	12%	59%	24%	14%	62%
Machinery	1	15	84	0	8	91
Electrical Machinery	2	10	89	1	11	88
Transportation Equipment	0	50	50	0	36	64
Chemicals	1	29	70	1	40	59
Food & Beverages	0	26	74	0	17	83
Other Manufacturing	1	4	95	1	4	95
ALL MANUFACTURING	2	24	73	2	21	78
Petroleum	0	4	95	1	5	95
ALL INDUSTRY	1	15	84	1	13	86

TABLE IV

FOREIGN AFFILIATES' CAPACITY CHANGE

	% Change In Physical Capacity	
	1981 Actual	1982 Estimated
Primary & Fabricated Metals	2%	0%
Machinery	4	5
Electrical Machinery	3	8
Transportation Equipment	2	0
Chemicals	-2	4
Food & Beverages	-4	2
Other Manufacturing	-2	2
ALL MANUFACTURING	1	3
Petroleum	-2	0
ALL INDUSTRY	0	2

TABLE V

OPERATING RATES

INDUSTRY	Dec. 1981	Expected Dec. 1982
Primary & Fabricated Metals	80%	75%
Machinery	66	61
Electrical Machinery	74	79
Transportation Equipment	81	85
Chemicals	72	71
Food & Beverages	82	70
Other Manufacturing	70	74
ALL MANUFACTURING	74	73
Petroleum	72	69
ALL INDUSTRY	73	71

TABLE VI

EXPORT SALES EXPECTATIONS OF AMERICAN MANUFACTURERS
(Millions of Dollars)

INDUSTRY	Actual* 1981	Expected 1982	% Change 1981-82	Expected 1983	% Change 1982-83	Expected 1984	% Change 1983-84
Primary & Fabricated Metals	$10,450	$10,137	-3%	$11,151	10%	$12,823	15%
Machinery	51,605	47,129	-9	51,575	9	57,373	11
Electrical Machinery	12,920	13,716	6	15,056	10	16,734	11
Transportation Equipment	33,637	27,066	-20	31,341	16	36,636	17
Chemicals	17,962	17,285	-4	19,067	10	21,764	14
Other Manufacturing	33,460	37,044	11	41,052	11	46,960	14
ALL MANUFACTURING	160,034	152,377	-5	169,242	11	192,290	14

* SOURCE: U.S. Dept. of Commerce

TABLE VII

EXPECTED PROFIT MARGINS ON SALES,
OVERSEAS SUBSIDIARIES vs. U.S.

INDUSTRY	1982 % of Companies Answering			1983 % of Companies Answering		
	Higher	Lower	Same	Higher	Lower	Same
Primary & Fabricated Metals	67%	33%	0%	67%	33%	0%
Machinery	56	44	0	44	56	0
Electrical Machinery	25	75	0	50	25	25
Transportation Equipment	33	56	11	25	63	13
Chemicals	40	60	0	30	70	0
Food & Beverages	0	33	67	0	67	33
Other Manufacturing	22	22	56	22	11	67
ALL MANUFACTURING	36	46	17	33	48	20
Petroleum	29	43	29	43	43	14
ALL INDUSTRY	35	46	19	34	47	19

TABLE VIII

EXPECTED OVERSEAS PROFIT MARGINS ON SALES,
1982 vs. 1981, 1983 vs. 1982

INDUSTRY	1982 vs. 1981 % of Companies Answering			1983 vs. 1982 % of Companies Answering		
	Higher	Lower	Same	Higher	Lower	Same
Primary & Fabricated Metals	0%	100%	0%	100%	0%	0%
Machinery	44	56	0	67	22	11
Electrical Machinery	0	50	50	75	25	0
Transportation Equipment	33	33	33	63	38	0
Chemicals	36	45	18	55	18	27
Food & Beverages	33	33	33	0	67	33
Other Manufacturing	33	56	11	78	0	22
ALL MANUFACTURING	31	50	19	64	13	23
Petroleum	14	71	14	100	0	0
ALL INDUSTRY	29	53	18	68	11	21

TABLE IX

EXPECTED SALES OF FOREIGN AFFILIATES

	Expected % Change		
INDUSTRY	1981-82	1982-83	1983-84
Primary & Fabricated Metals	0%	17%	16%
Machinery	-5	12	13
Electrical Machinery	-1	9	17
Transportation Equipment	1	17	20
Chemicals	4	10	11
Food & Beverages	3	19	20
Other Manufacturing	9	15	15
ALL MANUFACTURING	1	14	16
Petroleum	-21	2	11
ALL INDUSTRY	-9	8	14

TABLE X

INVESTMENT FOR AIR & WATER POLLUTION CONTROL

INDUSTRY	Overseas Pollution Control Expenditures (Millions of Dollars) Actual 1981	Planned 1982	% Change 1981-82	Pollution Control Expenditures as Percent of Capital Spending: Overseas Actual 1981	Overseas Planned 1982	U.S.* Actual 1981	U.S.* Planned 1982
Primary & Fabricated Metals	$ 92	$ 28	-70%	9%	5%	7.5%	8.0%
Machinery	66	67	2	1	1	2.7	2.8
Electrical Machinery	44	49	11	3	3	1.3	1.5
Transportation Equipment	17	9	-47	1	1	1.7	2.2
Chemicals	161	155	-4	5	5	6.6	8.3
Food & Beverages	0	10	NA	0	1	4.2	3.3
Other Manufacturing	52	58	12	2	2	4.9	5.8
ALL MANUFACTURING	432	376	-13	2	2	4.1	4.5
Petroleum	391	378	-3	2	2	5.1	4.8
ALL INDUSTRY	823	754	-8	2	2	4.6	4.6

* SOURCE: 15th Annual McGraw-Hill Survey of Pollution Control Expenditures

TABLE X (Cont'd)

INVESTMENT FOR AIR & WATER POLLUTION CONTROL

	Overseas Pollution Control Expenditures			
	--Millions of Dollars--		----------% Change-------	
INDUSTRY	1983	1984	1982-83	1983-84
Primary & Fabricated Metals	$ 27	$ 29	-4%	7%
Machinery	78	87	16	12
Electrical Machinery	56	68	14	21
Transportation Equipment	10	10	11	0
Chemicals	155	172	0	11
Food & Beverages	2	2	-80	0
Other Manufacturing	58	72	0	24
ALL MANUFACTURING	386	440	3	14
Petroleum	455	467	20	3
ALL INDUSTRY	841	907	12	8

TABLE XI

FOREIGN CAPITAL SPENDING "SOURCED" IN THE U.S

	% of Foreign Affiliates' Capital Goods Purchases Made in the U.S.			
INDUSTRY	1981	1982	1983	1984
Primary & Fabricated Metals	5%	5%	5%	5%
Machinery	9	12	12	10
Electrical Machinery	10	10	9	9
Transportation Equipment	25	17	17	19
Chemicals	18	13	12	15
Food & Beverages	16	8	8	8
Other Manufacturing	12	14	13	13
ALL MANUFACTURING	15	13	12	13
Petroleum	12	21	23	24
ALL INDUSTRY	14	17	17	18

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Executive Summary

American industrial companies don't expect to raise foreign capital spending much this year or next.

Purchases of property, plant, and equipment abroad are projected to rise just 4% in 1982 to $38.4 billion. In 1983, U.S. industrial firms plan to hike expenditures by 10%.

These projections are based on a McGraw-Hill survey conducted in July and August.

While overall expenditures are slated to rise only 4% this year, there is a sharp division between plans of manufacturing firms on one hand and petroleum firms on the other. Faced with recessionary economies in their major European and Canadian markets, manufacturers intend to cut capital spending abroad by 7% this year and by another 5% next year. One reason for this cutback is that U.S. foreign affiliates' factories are operating at low levels--about 73% on average.

U.S. oil company refineries abroad also have plenty of spare capacity. Nonetheless, oil firms' affiliates foresee a 16% jump in capital expenditures this year followed by a 23% hike in 1983. The apparent reason is that oil companies plan to pour huge sums of money into exploration in Asia. While the survey does not ask about investment in specific countries in Asia, one possibility for the big increase could be projected spending to find and develop oil reserves in China.

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